

OAK RIDGE UTILITY DISTRICT
FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

OAK RIDGE UTILITY DISTRICT

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September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To Board of Commissioners
Oak Ridge Utility District
Oak Ridge, Tennessee

We have audited the accompanying balance sheets of Oak Ridge Utility District (the District) as of September 30, 2012, and the related statements of revenues, expenses and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of September 30, 2011 were audited by other auditors, whose report dated on April 2, 2012 expressed an unqualified opinion on those statements.

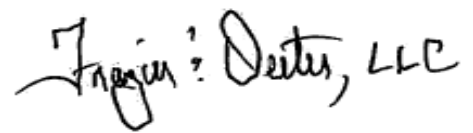
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The supplemental information included on pages 38 through 39, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplemental information shown on pages 40 through 43 has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Ferguson & Deiter, LLC". The signature is written in a cursive, flowing style.

March 27, 2013

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

Our discussion and analysis of the Oak Ridge Utility District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2012 and 2011. This information is presented in conjunction with the audited financial statements that follow this section.

Overview of the Financial Statements

The financial statements of the District report the self-supporting proprietary activities of the District funded primarily by the sale of natural gas services. The District reports the business type activities in a manner similar to private sector business enterprises, using the accrual basis of accounting in accordance with generally accepted accounting principles.

The Balance Sheets present information on the District's assets and liabilities, with the difference between the two reported as net assets.

The Statement of Revenues, Expenses and Changes in Net Assets reports revenues and expenses, the results of the District's operations over the course of the fiscal year, and information regarding how net assets changed during the year.

The Statement of Cash Flows presents information concerning cash receipts and disbursements during the reporting period from operational, financing and investing activities.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements, including significant accounting policies, commitments, obligations, risks, contingencies and other financial matters.

Financial Analysis

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$21.1 million (net assets).
- Net assets increased by \$399 thousand or 1.9%.
- Capital assets decreased by \$54 thousand or 0.3%.
- Operating revenues decreased by \$1.4 million or 10.3%.
- Non-operating revenues decreased by \$2 thousand or 9.5%.
- Cost of gas sold decreased by \$1.1 million or 15.4%.
- Other operating expenses decreased by \$148 thousand or 3.1%.
- Capital contributions were \$3.6 thousand during 2012.
- The District's bond covenants require a debt service coverage ratio of not less than 1.2 to 1. For the year debt service coverage was 2.25 to 1.

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

Financial Position

As shown in Table 1, in 2012 total assets exceeded total liabilities by \$21.1 million, a \$399 thousand increase from 2011. The decrease in capital assets of \$54 thousand is comprised mainly of net capital additions of \$860 thousand net of depreciation expense of \$914 thousand. Current and other assets increased by \$152 thousand primarily as a result of increases in cash and cash equivalent and restricted assets of \$895 thousand being offset by decreases in receivables, materials and supplies, gas in storage and deferred gas costs totaling \$743 thousand.

Table 1
Statements of Net Assets
(In thousands of dollars)

	<i>September 30, 2012</i>	<i>September 30, 2011</i>	<i>Dollar Change</i>	<i>Percent Change</i>
Current, restricted, and other assets	\$ 9,967	\$ 9,815	\$ 152	1.5 %
Capital assets, less accumulated depreciation	<u>19,071</u>	<u>19,125</u>	<u>(54)</u>	<u>(0.3)%</u>
Total assets	<u>\$ 29,038</u>	<u>\$ 28,940</u>	<u>\$ 98</u>	<u>0.3 %</u>
Current liabilities payable from current assets	\$ 2,703	\$ 2,639	\$ 64	2.4 %
Current liabilities payable from restricted assets	507	496	11	2.2 %
Non-current liabilities	<u>4,690</u>	<u>5,066</u>	<u>(376)</u>	<u>(7.4)%</u>
Total liabilities	<u>7,900</u>	<u>8,201</u>	<u>(301)</u>	<u>(3.7)%</u>
Invested in capital assets, net of related debt	14,632	14,263	369	2.6 %
Restricted	584	579	5	0.9 %
Unrestricted	<u>5,922</u>	<u>5,897</u>	<u>25</u>	<u>0.4 %</u>
Total net assets	<u>21,138</u>	<u>20,739</u>	<u>399</u>	<u>1.9 %</u>
Total liabilities and net assets	<u>\$ 29,038</u>	<u>\$ 28,940</u>	<u>\$ 98</u>	<u>0.3 %</u>

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

At September 30, 2012, approximately 69% of the net assets were related to capital assets, which include property, plant and equipment. Restricted funds, limited to debt service by bond covenants, comprised 3% of the net assets and the remaining 28% was in unrestricted asset accounts used for on-going operations of the District.

As shown in Table 2, in 2011, total assets exceeded total liabilities by \$20.7 million, a \$503 thousand increase from 2010. The increase in capital assets of \$194 thousand is comprised primarily of net capital additions of \$1.1 million net of depreciation expense of \$925 thousand. Current and other assets increased by \$19 thousand primarily as a result of an increase in cash of \$142 thousand, an increase in receivables and other assets of \$81 thousand, and a decrease in materials, supplies and gas in storage of \$480 thousand and an increase in deferred outflows of \$276 thousand. At September 30, 2011, approximately 69% of the net assets were related to capital assets.

Table 2
Statements of Net Assets
(In thousands of dollars)

	<u>September 30, 2011</u>	<u>September 30, 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current, restricted, and other assets	\$ 9,815	\$ 9,796	\$ 19	0.2 %
Capital assets, less accumulated depreciation	<u>19,125</u>	<u>18,931</u>	<u>194</u>	<u>1.0 %</u>
Total assets	<u>\$ 28,940</u>	<u>\$ 28,727</u>	<u>\$ 213</u>	<u>0.7 %</u>
Current liabilities payable from current assets	\$ 2,639	\$ 2,503	\$ 136	5.4 %
Current liabilities payable from restricted assets	496	469	27	5.8 %
Non-current liabilities	<u>5,066</u>	<u>5,519</u>	<u>(453)</u>	<u>(8.2)%</u>
Total liabilities	<u>8,201</u>	<u>8,491</u>	<u>(290)</u>	<u>(3.4)%</u>
Invested in capital assets, net of related debt	14,263	13,597	666	4.9 %
Restricted	579	567	12	2.1 %
Unrestricted	<u>5,897</u>	<u>6,072</u>	<u>(175)</u>	<u>(2.9)%</u>
Total net assets	<u>20,739</u>	<u>20,236</u>	<u>503</u>	<u>2.5 %</u>
Total liabilities and net assets	<u>\$ 28,940</u>	<u>\$ 28,727</u>	<u>\$ 213</u>	<u>0.7 %</u>

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

As shown in Table 3, in 2012 operating revenues were down 10.3% from 2011 due mainly to decreased usage by customers and 15.4% decrease in the cost of gas. Gas sales volumes totaled 1.07 Billion Cubic Feet (Bcf) in 2012 and 1.26 Bcf in 2011, which amounts to a 15.1% decrease in sales volume in 2012 from 2011. Operating revenues totaled \$12.3 million and were derived principally from the retail sale of gas to an average of 12,786 customers.

Residential customers comprised 52.6% of total gas sales revenue while commercial customers comprised 25.9%, and industrial customers accounted for the remaining 21.5%. Non-operating revenues totaled \$19 thousand in 2012. That amounted to a \$2 thousand decrease from 2011.

Table 3
Statements of Changes in Net Assets
(In thousands of dollars)

	<u>September 30, 2012</u>	<u>September 30, 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Sales, service and other operating revenues	\$ 12,263	\$ 13,673	\$ (1,410)	(10.3)%
Non-operating revenues	<u>19</u>	<u>21</u>	<u>(2)</u>	<u>(9.5)%</u>
Total revenues	\$ 12,282	\$ 13,694	\$ (1,412)	(10.3)%
Expenses:				
Cost of gas sold	6,159	7,283	(1,124)	(15.4)%
Other operating expenses	4,579	4,727	(148)	(3.1)%
Depreciation and amortization expense	918	929	(11)	(1.2)%
Non-operating expenses	<u>231</u>	<u>252</u>	<u>(21)</u>	<u>(8.3)%</u>
Total expenses	<u>11,887</u>	<u>13,191</u>	<u>(1,031)</u>	<u>(7.8)%</u>
Income before contributions	395	503	(108)	(21)%
Capital contributions	<u>4</u>	<u>-</u>	<u>4</u>	<u>100 %</u>
Change in net assets	399	503	(104)	(20.7)%
Total net assets - beginning	<u>20,739</u>	<u>20,236</u>	<u>503</u>	<u>2.5 %</u>
Total net assets - ending	<u>\$ 21,138</u>	<u>\$ 20,739</u>	<u>\$ 399</u>	<u>1.9 %</u>

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

Adjustments for uncollectible accounts, which are deducted from gross operating revenues, amounted to \$20 thousand in 2012 and, as a percent of total revenues, amounted to 0.2%. Cost of gas sold in 2012 was \$6.2 million and decreased \$1.1 million, or 15.4%, from 2011. Other operating expenses in 2012 were \$4.6 million and decreased \$148 thousand, or 3.1%, from 2011. The decrease in other operating expenses was primarily related to increases in salaries and benefits and an increase in health insurance premiums offset by larger decreases in costs related to appliance installations and appliance cost of goods sold.

In 2012, Heating Degree Days (HDD's) totaled 2,809 compared to 3,611 in 2011, 3,910 in 2010 and 3,690 in a normal year. On an HDD basis, 2012 was 23.9% warmer than normal and 23.1% warmer than 2011. On an HDD basis, 2011 was 0.01% warmer than normal and 6.5% warmer than 2010.

Table 4
Statements of Changes in Net Assets
(In thousands of dollars)

	<u>September 30, 2011</u>	<u>September 30, 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Sales, service and other operating revenues	\$ 13,673	\$ 15,249	\$ (1,576)	(10.3)%
Non-operating revenues	<u>21</u>	<u>31</u>	<u>(10)</u>	<u>(32.3)%</u>
Total revenues	<u>13,694</u>	<u>15,280</u>	<u>(1,586)</u>	<u>(10.4)%</u>
Expenses:				
Cost of gas sold	7,283	8,935	(1,652)	(18.5)%
Other operating expenses	4,727	4,267	460	10.8 %
Depreciation expense	929	923	6	0.7 %
Non-operating expenses	<u>252</u>	<u>274</u>	<u>(22)</u>	<u>(8.0)%</u>
Total expenses	<u>13,191</u>	<u>14,399</u>	<u>(1,208)</u>	<u>(8.4)%</u>
Change in net assets	503	881	(378)	(42.9)%
Total net assets - beginning	<u>20,236</u>	<u>19,355</u>	<u>881</u>	<u>4.6 %</u>
Total net assets - ending	<u>\$ 20,739</u>	<u>\$ 20,236</u>	<u>\$ 503</u>	<u>2.5 %</u>

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

As shown in Table 4, in 2011 operating revenues were down 10.3% from 2010 due mainly to nominal increased usage by customers being offset by a 18.5% decrease in the cost of gas. Gas sales volumes totaled 1.26 Billion Cubic Feet (Bcf) in 2011 and 1.34 Bcf in 2010, which amounts to a 6.0% decrease in sales volume in 2011 from 2010. Operating revenues totaled \$13.7 million and were derived principally from the retail sale of gas to an average of 12,595 customers.

Residential customers comprised 53.6% of total gas sales revenue while commercial customers comprised 24.2%, and industrial customers accounted for the remaining 22.2%. Non-operating revenues totaled \$21 thousand in 2011. That amounted to a \$10 thousand decrease from 2010.

Adjustments for uncollectible accounts, which are deducted from gross operating revenues, amounted to \$9 thousand in 2011 and, as a percent of total revenues, amounted to 0.1%. Cost of gas sold in 2011 was \$7.3 million and was down \$1.7 million, or 18.5%, from 2010. Other operating expenses in 2011 were \$4.7 million and were up \$460 thousand, or 10.8%, from 2010. The increase in other operating expenses was primarily related to increases in salaries and benefits, an increase in health insurance premiums, and increases in costs related to appliance installations and appliance cost of goods sold.

Construction Activities

Generally, the District performs most pipeline construction in-house. During 2012, net plant additions totaled approximately \$788 thousand, and 65,697 feet of mains and service lines were added. During 2011, net plant additions totaled approximately \$1.5 million, and 60,500 feet of main and service line were added, including 12,000 feet related to the acquisition of the Roan County Industrial Park. The majority of the District's in-house construction activities are in Roane County.

Debt Outstanding

At September 30, 2012 the District had \$4.42 million in debt outstanding, compared to \$4.86 million in 2011, representing a decrease of \$440 thousand or 9.1%.

Currently Known Facts, Decisions and Conditions

A description of currently known facts, decisions, and conditions that are expected to have a significant impact on future financial position or results of operations follows.

2002 Series Bond Redemption

Effective January 23, 2013, the District has retired the remaining debt related to the 2002 Series bonds. On that date, the District paid a total of \$1,214,908 to repay \$1,200,000 in bonds outstanding and \$14,908 in related interest accrued through that date.

OAK RIDGE UTILITY DISTRICT

Management's Discussion and Analysis (unaudited)

For the Years Ended September 30, 2012 and 2011

Federal Grant

The District's application for a grant totaling \$45,575 for the purchase of a Ground Penetrating Radar (GPR) and related equipment, to assist in the detection of non-metallic utility service lines for the purposes of location and mapping, was not approved. The District will continue to apply for available grants as the need for qualifying expenditures arises.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate District accountability for the monies it receives. If you have any questions about this report, or require additional or clarifying information, please contact the District's Controller, P.O. Box 4189, Oak Ridge, TN 37831.

OAK RIDGE UTILITY DISTRICT

Balance Sheets

September 30, 2012 and 2011

	Assets	
	2012	2011
Current assets		
Cash and cash equivalents	\$ 5,967,735	\$ 5,072,776
Accounts receivable, less allowance for doubtful accounts of \$36,000 in 2012 and 2011	515,667	594,403
Other receivables	85,773	160,717
Unbilled revenues	133,160	160,358
Inventories	1,832,735	2,095,793
Deferred gas charges	-	253,385
Prepaid expenses and other assets	116,346	129,022
Total current assets	8,651,416	8,466,454
Restricted assets		
Cash and cash equivalent-bond and interest sinking fund	45,226	121,767
Cash and cash equivalent-debt service reserve fund	339,312	339,312
Investments - bond and interest sinking fund	250,000	172,000
Total restricted assets	634,538	633,079
Long-term accounts receivable	113,442	158,577
Unamortized debt issue costs	15,672	19,299
Deferred outflows	552,435	537,733
Utility plant		
Utility plant in service	35,057,343	34,244,175
Less accumulated depreciation and amortization	(16,040,724)	(15,197,919)
	19,016,619	19,046,256
Construction in progress	54,214	79,155
Net property and equipment	19,070,833	19,125,411
Total Assets	\$ 29,038,336	\$ 28,940,553

See notes to financial statements.

OAK RIDGE UTILITY DISTRICT

Balance Sheets - Continued

September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 412,865	\$ 471,636
Due to customers	1,052,389	1,270,359
Customer deposits	723,761	693,399
Accrued payroll	132,082	129,161
Other accrued liabilities	8,957	14,335
Deferred gas credits	313,103	-
Accrued maintenance of rights-of-way	<u>60,000</u>	<u>60,000</u>
Total current liabilities	2,703,157	2,638,890
Liabilities payable from restricted assets		
Current maturities of long-term debt	456,557	442,668
Accrued interest	<u>50,306</u>	<u>53,767</u>
Total liabilities payable from restricted assets	506,863	496,435
Interest rate swap	552,435	537,733
Other postemployment benefits obligation	177,173	111,444
Long-term debt, less current maturities	<u>3,960,355</u>	<u>4,416,912</u>
Total liabilities	7,899,983	8,201,414
Net assets		
Invested in capital assets, net of related debt	14,631,923	14,263,411
Restricted for debt service	584,232	579,312
Unrestricted	<u>5,922,198</u>	<u>5,896,416</u>
Total net assets	<u>21,138,353</u>	<u>20,739,139</u>
Total Liabilities and Net Assets	<u>\$ 29,038,336</u>	<u>\$ 28,940,553</u>

See notes to financial statements.

OAK RIDGE UTILITY DISTRICT

Statements of Revenues, Expenses and Change in Net Assets

For the Years Ended September 30, 2012 and 2011

	<u>2012</u> <u>Amount</u>	<u>Percent of</u> <u>Revenues</u>	<u>2011</u> <u>Amount</u>	<u>Percent of</u> <u>Revenues</u>
Operating revenues				
Sale of natural gas	\$11,484,165	93.6 %	\$12,732,812	93.1 %
Sale of appliances	513,169	4.2 %	650,749	4.8 %
Other operating revenues	286,211	2.4 %	299,097	2.2 %
Uncollectible accounts	<u>(20,327)</u>	<u>-0.2 %</u>	<u>(9,174)</u>	<u>-0.1 %</u>
Total operating revenues	12,263,218	100.0 %	13,673,484	100.0 %
Operating expenses				
Cost of gas sales	6,158,647	50.2 %	7,283,442	53.3 %
Cost of appliances and installations	474,027	3.9 %	836,109	6.1 %
Operations and maintenance	802,687	6.5 %	764,658	5.6 %
Customer accounting and collection	153,026	1.2 %	164,325	1.2 %
Administrative and general	3,089,830	25.2 %	2,900,949	21.2 %
Depreciation and amortization	917,777	7.5 %	929,342	6.8 %
Maintenance of rights-of-way	<u>60,000</u>	<u>0.5 %</u>	<u>60,000</u>	<u>0.4 %</u>
Total operating expenses	<u>11,655,994</u>	<u>95.0 %</u>	<u>12,938,825</u>	<u>94.6 %</u>
Operating income	607,224	5.0 %	734,659	5.4 %
Nonoperating revenues (expenses)				
Interest income	14,090	0.1 %	20,734	0.1 %
Interest expense	(230,718)	-1.9 %	(252,154)	-1.8 %
Net gain on sale of utility plant assets	<u>4,990</u>	<u>0.0 %</u>	<u>-</u>	<u>0.0 %</u>
Total nonoperating revenues (expenses)	<u>(211,638)</u>	<u>-1.8 %</u>	<u>(231,420)</u>	<u>-1.7 %</u>
Income before contributions	395,586	3.2 %	503,239	3.7 %
Capital contributions	<u>3,628</u>	<u>- %</u>	<u>-</u>	<u>- %</u>
Increase in net assets	399,214	<u>3.2 %</u>	503,239	<u>3.7 %</u>
Net assets, beginning of year	<u>20,739,139</u>		<u>20,235,900</u>	
Net assets, end of year	<u>\$21,138,353</u>		<u>\$20,739,139</u>	

See notes to financial statements.

OAK RIDGE UTILITY DISTRICT

Statements of Cash Flows

For the Years Ended September 30, 2012 and 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
<u>Cash flows from operating activities</u>		
Receipts from customers	\$ 12,301,623	\$ 13,961,338
Payments to suppliers	(6,843,672)	(8,773,570)
Payments to or on the behalf of employees	<u>(3,067,404)</u>	<u>(3,121,661)</u>
Net cash provided by operating activities	2,390,547	2,066,107
<u>Cash flows from noncapital financing activities</u>		
Interest paid on customer deposits	(1,839)	(1,669)
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of utility plant	(832,584)	(1,117,142)
Interest paid on revenue bonds	(195,004)	(211,137)
Payments on long-term debt	(480,000)	(455,000)
Advance payment of utility plant additions	-	(85,773)
Payments of short-term payables for prior year utility plant additions	(2,420)	(60,814)
Capital contributions	<u>3,628</u>	<u>-</u>
Net cash used in capital and related financing activities	(1,506,380)	(1,929,866)
<u>Cash flows from investing activities</u>		
Proceeds from maturities of investments	422,000	801,000
Purchase of investments	(500,000)	-
Interest received	<u>14,090</u>	<u>17,771</u>
Net cash (used in) provided by investing activities	<u>(63,910)</u>	<u>818,771</u>
Net increase in cash and cash equivalents	818,418	953,343
Cash and cash equivalents, beginning of the year	<u>5,533,855</u>	<u>4,580,512</u>
Cash and cash equivalents, end of the year	<u><u>\$ 6,352,273</u></u>	<u><u>\$ 5,533,855</u></u>

See notes to financial statements.

OAK RIDGE UTILITY DISTRICT

Statements of Cash Flows - Continued

For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Operating income	\$ 607,224	\$ 734,659
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	917,777	929,342
Changes in operating assets and liabilities		
Accounts receivable	78,736	59,947
Other receivables	120,079	86,898
Unbilled revenues	27,198	(23,594)
Inventories	263,058	480,404
Deferred gas cost	566,488	(381,766)
Prepaid expenses and other assets	12,676	9,432
Accounts payable	(78,349)	(45,358)
Due to customers	(217,970)	116,656
Customer deposits	30,362	47,947
Accrued liabilities	(2,461)	17,300
Other postemployment benefits obligation	<u>65,729</u>	<u>34,240</u>
Total adjustments	<u>1,783,323</u>	<u>1,331,448</u>
Net cash provided by operating activities	<u>\$ 2,390,547</u>	<u>\$ 2,066,107</u>
<u>Supplemental disclosure of noncash capital and related financing activities</u>		
Acquisition of utility plant financed by accounts payable	\$ 21,998	\$ 2,420
Acquisition of utility plant financed through equipment trade-in value	\$ 10,100	\$ -

See notes to financial statements.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements

September 30, 2012 and 2011

Note 1 - Nature of organization:

Oak Ridge Utility District (the District) is a municipal corporation created by the authority of the Tennessee Private Acts of 1951, Chapter 503, as amended, to provide natural gas services to residents and businesses within the boundaries of Oak Ridge, Tennessee, adjacent areas and the southern and eastern regions of Roane County, Tennessee. All corporate powers of the District are vested in and exercised by a five member Board of Commissioners (the Board). Members of the Board are approved by the Oak Ridge City Council. The District's operations alone constitute the reporting entity since the Board is not financially accountable for any other entities and the District has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the District.

The District receives all of its natural gas supply through East Tennessee Natural Gas, wholly-owned by Spectra Energy Partners, LP, and other upstream interstate pipelines. The District has firm transportation contracts with these pipelines. The District also has a firm gas supply contract with Tennessee Energy Acquisition Corporation (TEAC).

In 2011, the District purchased the East Roane Industrial Park natural gas distribution system including all equipment, facilities and real estate utilized for the operation of the system. The District will assume all the rights and responsibility for servicing all current and future customers within the East Roane Industrial Park.

Note 2 - Summary of significant accounting policies:

Basis of presentation, measurement focus and basis of accounting

The accounts of the District are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of significant accounting policies - continued:

Basis of presentation, measurement focus and basis of accounting - continued

The District classifies its net assets into three components: invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - consists of net assets with constraints placed on their use by external third parties, revenue bond resolutions, or enabling legislation.
- Unrestricted net assets - consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Measurement focus is a term used to describe which transactions are recorded in the financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows, except for the cost of purchased natural gas which is deferred until it is recovered from customers through an approved purchased gas adjustment clause included in the District's rate schedules (see purchased gas adjustment below).

Regulatory accounting

The District follows proprietary fund accounting in accordance with Government Accounting Standards Board (GASB) pronouncements. Proprietary fund accounting is used to report business-type activities, as contrasted with tax-supported governmental activities.

The District also complies with policies and practices prescribed by the Board and to practices common in the natural gas industry. As the Board has the authority to set rates, the District has elected, under GASB Statement No. 20 and Statement No. 34, not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. Under regulated accounting guidance, regulatory assets are recorded to reflect

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of significant accounting policies - continued:

Regulatory accounting - continued

probable future revenues associated with certain costs that are expected to be recovered from customers through the rate-making process. Regulatory liabilities are recorded to reflect probable future reduction in revenues associated with amounts that are expected to be credited to customers in the rate-making process.

Cash and cash equivalents

The District's cash includes cash on hand, demand deposits, and highly liquid investments (including restricted cash) with maturities of three months or less from the date of acquisition.

Receivables

The District's accounts receivable consist of billed charges to customers and unbilled charges net of an allowance for doubtful accounts. Unbilled revenues represent the estimated receivable amount for services that have not been billed to customers at the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period)

Purchased gas adjustment

A purchased gas adjustment (PGA) is used in the District's rate schedules to pass on to customers increases and decreases in natural gas costs. The difference between actual costs incurred for natural gas and cost recovered through the application of the PGA is reflected as a net deferred charge or credit. The balance of the net deferred charge or credit is amortized to income over the next twelve-month period and amounts are reflected in customer billings.

In November 2009, the Federal Energy Regulatory Commission (FERC) approved a proposed settlement between Tennessee Gas Pipeline Company (TGP) and its customers, which includes the District. Under the terms of the settlement, the District is to receive a total refund of \$222,272 from TGP to be collected in quarterly installments beginning in December 2009 and ending in April 2012. The District has elected to include the refund in the application of the PGA (refunded it to the District's customers) as the refund is collected from TGP. The refund from TGP was fully collected as of September 30, 2012.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of significant accounting policies - continued:

Purchased gas adjustment - continued

At September 30, 2012, the Board created a regulatory liability of \$300,000. This regulatory liability will be refunded to the customers of ORUD during the fiscal year ending September 30, 2013 and is due to actual expenses being less than budgeted expenses. The liability was recorded as a credit to the deferred gas charges (credit) account and will be refunded to customers through the PGA mechanism.

Inventories

Inventories are comprised of materials and supplies, appliances, propane and natural gas in storage, and are valued at average inventory cost.

Investments

Investments in the Tennessee Local Government Investment Pool are reported at fair value.

Derivative instrument:

During the year ended September 30, 2010, the District implemented the provisions of GASB Statement No. 53 (Statement No. 53), *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 53 requires the District to measure derivative instruments at fair value in its financial statements. The changes in fair value of hedging derivative instruments are reported as deferred outflows or deferred inflows on the balance sheet. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as a component of investment income or loss in the statement of revenues, expenses and change in net assets.

Utility plant and depreciation

Utility plant constructed or acquired is stated at historical cost. Any utility plant contributed is stated at estimated fair market value on the date received. Utility plant assets are presently defined by the District as a unit of property with an individual cost greater than \$1,000 and an estimated useful life of one year or more.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of significant accounting policies - continued:

Utility plant and depreciation - continued

The cost of normal repairs of property and the replacement and renewal of items considered less than units of property are charged to maintenance expense. Gas distribution plant assets which include gas mains and services lines, are depreciated using mass asset accounting. Units of property for distribution plant assets that are replaced or retired, are credited to the utility plant accounts and charged to accumulated depreciation (no gain or loss is recognized). General plant assets which include buildings, transportation equipment, and machinery and equipment, are depreciated as individual assets, and gain or loss is recognized on general plant asset retirements. Interest is capitalized, net of interest earned on interest-bearing investments acquired with the proceeds of tax-exempt borrowings, in connection with the construction of significant utility plant. The construction period interest is recorded as part of the cost of the asset to which it relates and is amortized over the asset's estimated useful life. No interest was capitalized for the years ended September 30, 2012 and 2011.

Depreciation of utility plant is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable utility plant assets are as follows:

	Depreciable life (in years)
Distribution plant	20-50 years
Production plant	5-40 years
General plant	5-20 years

Bond discounts, refunding costs and issuance costs

Bond discounts, refunding costs and issuance costs are capitalized and amortized using the interest method over the term of the debt issue. Bond discounts amortization totaled \$1,558 for 2012 and \$1,823 for 2011. Refunding costs amortization totaled \$35,775 for 2012 and \$39,221 for 2011. Bond discounts and refunding costs amortization are presented as components of interest expense in the statement of revenues, expenses and change in net assets. Issuance costs amortization totaled \$3,627 for 2012 and \$4,061 for 2011. Issuance costs amortization is included in the depreciation and amortization expense in the statement of revenues, expenses and change in net assets.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of significant accounting policies - continued:

Revenues and expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, the District's policy is to apply those expenses to restricted net assets to the extent they are available and then to unrestricted net assets.

Accrued payroll

Accrued payroll includes wages and vacation time earned, but unpaid or unused, at the end of the year. All accrued vacation benefits are based on current pay rates.

Income taxes

The District is a municipal corporation created by the authority of the Tennessee Private Acts of 1951, Chapter 503 and is, therefore, not a tax-paying entity for United States of America federal or state income tax purposes. No events or transactions have occurred that would impact the tax exempt status of the accompanying financial statements.

Subsequent Events

The District has evaluated subsequent events through March 27, 2013, which is the date these financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made in the 2011 financial statements to make them comparable to the classifications used in the 2012 financial statement presentation.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 3 - Deposits and investments:

Under the terms of the bond resolution authorizing the issuance of the Gas System Revenue Refunding Bonds, Series 2002, the District is authorized to invest idle funds in direct obligations of the U.S. Government, obligations of federal agencies backed by the full faith and credit of the U.S. Government, and obligations of the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. The District is also authorized to invest in deposit accounts, federal funds and bankers acceptances maturing no more than one year from the date of purchase, highly rated commercial paper, highly rated money market funds registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, bonds or notes issued by any state or municipality rated in one of the two highest rating categories, repurchase agreements with primary dealers listed in the Federal Reserve reporting dealers list or banks rated A or above by Moody's Investor Service and Standard and Poor's Corporation with a term less than or equal to 30 days collateralized by securities delivered to the District or with a third party acting as agent for the District, and the local government investment pool established by Sections 9-4-701 et seq., *Tennessee Code Annotated* (Tennessee Local Government Investment Pool). The District is also authorized to invest in investment agreements, including guaranteed investment contracts acceptable to AMBAC Indemnity Corporation. The District has not adopted any investment policies that further restrict the maturities of their investments, the credit risk or custodial risk. In addition, the District has not adopted a formal policy to limit the amount the District may invest in any one issuer.

At September 30, 2012 and 2011, the District's only investment is the Tennessee Local Government Investment Pool totaling \$2,520,836 and \$2,517,678, respectively. The Tennessee Local Government Investment Pool is considered a cash equivalent for presentation in the balance sheets, as it has a weighted average maturity of less than 90 days and is an unrated external investment pool that operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940.

At September 30, 2012 and 2011, investments presented in the balance sheets consist of the following:

	<u>2012</u>	<u>2011</u>
Bank certificates of deposit (over 90-day maturity)	\$ <u>250,000</u>	\$ <u>172,000</u>

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 4 - Inventories:

Inventories are comprised of the following at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Materials and supplies	\$ 327,311	\$ 370,775
Appliances	132,420	147,953
Propane gas in storage	121,935	121,935
Natural gas in storage	<u>1,251,069</u>	<u>1,455,130</u>
	<u>\$ 1,832,735</u>	<u>\$ 2,095,793</u>

Note 5 - Derivative instrument:

The District and the bond holder (Bank of America) entered into an interest rate swap agreement for the outstanding principal due on the District's Gas System Revenue Bond, Series 2005, variable rate bond as discussed in Note 8. The intention of the swap was to effectively change the District's variable interest rate on the Series 2005 bond to a synthetic fixed rate of 3.93%. Under the swap agreement, the District owes Bank of America interest at a fixed rate of 3.93% and Bank of America owes the District interest based on a variable rate that is calculated at 63.456% of the British Bankers Association LIBOR Daily Floating Rate plus 0.82%.

The District has one interest rate swap as of September 30, 2012 and 2011. The interest rate swap is classified as a cash-flow hedging derivative instrument. The following table displays the terms of the interest rate swap outstanding at September 30, 2012, along with the credit ratings of the counterparty by Fitch Ratings, Moody's, and Standard & Poor's, respectively, at December 31, 2012:

<u>Hedging derivative</u>	<u>Notional amount</u>	<u>Effective date</u>	<u>Maturity date</u>	<u>Counterparty credit ratings</u>
Pay-fixed interest rate swap	\$ 3,980,000	9/8/2005	4/1/2025	A/Baa2/A-

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 5 - Derivative instrument - continued:

The fair value balances of the derivative instrument outstanding at September 30, 2012 and 2011 and the changes in fair value for the years then ended as reported in the financial statements are as follows:

<u>Derivative</u>	<u>2012 changes in fair value</u>		<u>Fair value at September 30,</u>	
	<u>Classification</u>	<u>Amount</u>	<u>2012</u>	
			<u>Classification</u>	<u>Amount</u>
Cash flow hedge:				
Pay-fixed interest	Deferred outflow of			
rate swap	resources	\$ 14,702	Debt	\$ 552,435

<u>Derivative</u>	<u>2011 changes in fair value</u>		<u>Fair value at September 30,</u>	
	<u>Classification</u>	<u>Amount</u>	<u>2011</u>	
			<u>Classification</u>	<u>Amount</u>
Cash flow hedge:				
Pay-fixed interest	Deferred outflow of			
rate swap	resources	\$ 31,027	Debt	\$ 537,733

The fair value of the interest swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk

Credit risk can be measured by actual market value exposure. When the fair value of the derivative has a positive fair value, then the District is exposed to the actual risk that the counterparty will not fulfill its obligations. As of September 30, 2012 and 2011, the hedging derivative is a liability; therefore, the District has no exposure to actual credit risk. Should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk to the extent of the amount of the derivative's fair value.

Interest rate risk

The hedging derivative is a pay-fixed, receive-variable cash flow hedge that hedges variable rate debt. The District believes it has significantly reduced interest rate risk attributable to the principal amount being hedged by entering into the interest rate swap.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 5 - Derivative instrument - continued:

Basis risk

The District is exposed to basis risk when the variable interest received on the swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. Since the interest received on the swap and the interest paid to the bond holder on the debt obligation is calculated using the same index, the District is not exposed to basis risk.

Termination risk

The District or counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In such event, the District may owe or be due a termination payment depending on the fair value of the swap at that time. The termination payment due to a counterparty or from a counterparty may not be equal to the fair value and will depend on the market at the time of the termination.

Rollover risk

The District is exposed to rollover risk when a swap matures prior to the associated debt maturing. As the swap and the debt are scheduled to mature on the same date, the District is not exposed to rollover risk.

Foreign currency risk

The hedging derivative is denominated in U.S. dollars and, therefore, the District is not exposed to foreign currency risk on its derivative transaction.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 6 - Utility plant:

At September 30, 2012 and 2011, the utility plant and changes to the plant during 2012 consisted of the following:

	<u>2011 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2012 Balance</u>
Utility plant not being depreciated:				
Land and improvements	\$ 395,817	\$ -	\$ -	\$ 395,817
Construction in progress	<u>79,155</u>	<u>350,672</u>	<u>(375,613)</u>	<u>54,214</u>
	<u>474,972</u>	<u>350,672</u>	<u>(375,613)</u>	<u>450,031</u>
Other utility plant being depreciated:				
Distribution plant	27,120,978	438,503	-	27,559,481
General plant	6,003,288	451,120	(76,455)	6,377,953
Production plant	<u>724,092</u>	<u>-</u>	<u>-</u>	<u>724,092</u>
	<u>33,848,358</u>	<u>889,623</u>	<u>(76,455)</u>	<u>34,661,526</u>
Less: accumulated depreciation	<u>(15,197,919)</u>	<u>(914,150)</u>	<u>71,345</u>	<u>(16,040,724)</u>
Net property and equipment	<u>\$ 19,125,411</u>	<u>\$ 326,145</u>	<u>\$ (380,723)</u>	<u>\$ 19,070,833</u>

For the year ended September 30, 2012, increases to accumulated depreciation totaled \$914,150 which consist of depreciation expense for the year.

At September 30, 2011 and 2010, the utility plant and changes to the plant during 2011 consisted of the following:

	<u>2010 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2011 Balance</u>
Utility plant not being depreciated:				
Land and improvements	\$ 395,817	\$ -	\$ -	\$ 395,817
Construction in progress	<u>63,455</u>	<u>376,657</u>	<u>(360,957)</u>	<u>79,155</u>
	<u>459,272</u>	<u>376,657</u>	<u>(360,957)</u>	<u>474,972</u>
Other utility plant being depreciated:				
Distribution plant	26,271,514	849,464	-	27,120,978
General plant	5,748,890	254,398	-	6,003,288
Production plant	<u>724,092</u>	<u>-</u>	<u>-</u>	<u>724,092</u>
	<u>32,744,496</u>	<u>1,103,862</u>	<u>-</u>	<u>33,848,358</u>
Less: accumulated depreciation	<u>(14,272,638)</u>	<u>(925,281)</u>	<u>-</u>	<u>(15,197,919)</u>
Net property and equipment	<u>\$ 18,931,130</u>	<u>\$ 555,238</u>	<u>\$ (360,957)</u>	<u>\$ 19,125,411</u>

For the year ended September 30, 2011, increases to accumulated depreciation totaled \$925,281 which consist of depreciation expense for the year.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 7 - Long-term debt:

At September 30, 2012 and 2011, long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
Gas System Revenue Refunding Bond, Series 2005, net of refunding costs of \$159,859 for 2012 and \$182,353 for 2011	\$ 3,250,141	\$ 3,427,647
Gas System Revenue Refunding Bonds, Series 2002, net of unamortized discount of \$3,486 and refunding costs of \$29,743 for 2012 and unamortized discount of \$5,044 and refunding costs of \$43,024 for 2011	<u>1,166,771</u> 4,416,912	<u>1,431,933</u> 4,859,580
Less current maturities, net of current portion of unamortized discount and refunding costs of \$33,443 for 2012 and \$37,332 for 2011	<u>456,557</u>	<u>442,668</u>
	<u>\$ 3,960,355</u>	<u>\$ 4,416,912</u>

In September 2005, the District issued a \$3,980,000 Gas System Revenue Bond Series 2005 to refund \$3,645,000 of the outstanding Series 2000 Bonds and to pay the costs of issuing the refunding bond. The net proceeds of the refunding bond were deposited with an escrow agent bank and invested in governmental obligations to provide for all the future debt service on the principal amount of the Series 2000 bonds refunded in advance. In April 2010, the escrow agent liquidated the balance owing on the refunded Series 2000 Bonds. The remaining outstanding principal balance of the Series 2000 bonds which was not advance refunded, totaling \$160,000 at September 30, 2009 bearing fixed interest at 5.00%, was paid in full by the District in April 2010.

The Gas System Revenue Bond, Series 2005 principal balance is payable annually starting April 1, 2006 through April 1, 2025, with interest payments payable semi-annually on April 1 and October 1. The Gas System Revenue Bond, Series 2005 bears a variable interest rate calculated at 63.456% of the BBA LIBOR (British Bankers Association London InterBank Offered Rate) Daily Floating Rate plus 0.82% (0.97% at September 30, 2012). At the option of the District, the Series 2005 bond is subject to optional redemption as a whole or in part at any time at the redemption price of par plus accrued interest on the redemption date.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 7 - Long-term debt - continued:

In December 2002, the District issued \$3,060,000 in Gas System Revenue Refunding Bonds Series 2002 to refund \$2,790,000 of the outstanding Series 1996 bonds and to pay the costs of issuing the refunding bonds. The Series 2002 bonds bear fixed interest at rates ranging from 2.00% to 4.15% per annum. The fixed interest is payable semi-annually on April 1 and October 1. At the option of the District, the Series 2002 bonds maturing on April 1, 2013 and thereafter are subject to redemption prior to maturity on or after April 1, 2012, as a whole or in part at any time, at the principal amount plus accrued interest to the date of redemption.

The Series 2002 and Series 2005 bonds are secured by a lien upon and pledge of the net revenues from operation of the natural gas distribution system. The payment of principal and interest due on the Series 2002 bonds is insured under the terms of non-cancelable municipal bond insurance policies. In 2009, the insurance financial strength rating of the insurer under the non-cancelable municipal bond insurance policies had been downgraded from Baa1 to Caa2 by Moody's Investors Service. As a result, the Moody's rating of the Gas System Revenue Bonds, Series 2000 and the Gas System Revenue Refunding Bonds, Series 2002 was withdrawn. As of December 3, 2010, the most recent rating, Moody's reconfirmed the Caa2 rating of the bond insurer and as of April 7, 2011 the credit rating was withdrawn.

In accordance with the bond resolution authorizing the issuance of the Series 2002 and Series 2005 bonds, the District is required to maintain a Bond and Interest Sinking Fund. The fund is restricted for a specific purpose and therefore is presented as restricted assets on the balance sheet. Monthly cash transfers to the Bond and Interest Sinking Fund must be sufficient to pay the interest due on the next succeeding interest payment date and the principal due on the next succeeding principal payment date. The bond resolutions also provide for a Debt Service Reserve Fund. The District is authorized to obtain surety bonds in place of funding the Debt Service Reserve Fund, which the District has elected to do for the Series 2002 bonds. For the Series 2005 bonds, the District elected to fund the Debt Service Reserve Fund with a balance equal to the maximum annual principal and interest requirement on the bonds during any fiscal year during the term of the bond. The fund is restricted for a specific purpose and therefore is presented as restricted assets on the balance sheet. Finally, under the rate covenant of the bond resolutions, the District is required to establish rates to its customers in order to maintain a debt service coverage ratio of not less than 1.2 to 1.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 7 - Long-term debt - continued:

Debt service requirements on long-term debt at September 30, 2012, for each of the next five years and thereafter are as follows, assuming current interest rates remain the same for the term of the debt:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap, net</u>	<u>Total</u>
2013	\$ 490,000	\$ 80,309	\$ 98,025	\$ 668,334
2014	510,000	67,308	91,802	669,110
2015	530,000	53,382	85,281	668,663
2016	550,000	38,654	78,465	667,119
2017	240,000	23,287	71,426	334,713
2018 - 2022	1,350,000	78,993	242,284	1,671,277
2023 - 2025	<u>940,000</u>	<u>13,866</u>	<u>42,529</u>	<u>996,395</u>
	<u>\$ 4,610,000</u>	<u>\$ 355,799</u>	<u>\$ 709,812</u>	<u>\$5,675,611</u>

Note 8 - Changes in long-term liabilities:

Long-term liability activity for the years ended September 30, 2012 and 2011 is as follows:

	<u>Gas system revenue bonds</u>	<u>Unamortized discount and refunding bonds</u>	<u>Pipeline charges refundable to customers</u>	<u>Total long-term liabilities</u>
Balance, September 30, 2010	\$ 5,545,000	\$ (271,465)	\$ 161,842	\$ 5,435,377
Additions	-	-	-	-
Reductions	<u>(455,000)</u>	<u>41,045</u>	<u>(86,898)</u>	<u>(500,853)</u>
Balance, September 30, 2011	5,090,000	(230,420)	74,944	4,934,524
Additions	-	-	-	-
Reductions	<u>(480,000)</u>	<u>37,332</u>	<u>(74,944)</u>	<u>(517,612)</u>
Balance, September 30, 2012	<u>\$ 4,610,000</u>	<u>\$ (193,088)</u>	<u>\$ -</u>	<u>\$ 4,416,912</u>
Amounts due within one year at September 30, 2012	<u>\$ 490,000</u>	<u>\$ (33,443)</u>	<u>\$ -</u>	<u>\$ 456,557</u>

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 9 - Risk management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains commercial insurance to cover general liability claims, errors or omissions liability, auto liability, workers' compensation claims, and property damage. The District's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the District. Claims arising are paid by the insurer. The District is covered by the Tennessee Governmental Tort Liability Act, which generally limits the District's liability for death, bodily injury and property damage claims to the amount of the District's insurance coverage for such claims since such coverage exceeds the minimum amounts required by the act. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. During the year ended September 30, 2012, the District added an insurance policy covering cyber liability claims up to \$3,500,000 in aggregate; no other policy changes were made.

Note 10 - Retirement plan:

Plan description

Employees of the District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service; and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34 - 37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Oak Ridge Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 10 - Retirement plan - continued:

Plan description - continued

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding policy

The District has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0% of annual covered payroll.

The District is required to contribute at an actuarially determined rate; the rate for the plan years ending June 30, 2012 and 2011, was 9.95% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

Annual pension cost

For the plan years ended June 30, 2012 and 2011, the District's annual pension cost of \$171,269 and \$169,651, respectively, was equal to the District's required and actual contributions. The required contribution for 2012 was determined as part of the July 1, 2009 actuarial valuation using frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually.

The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The District's unfunded actuarial accrued liability is being amortized as a level-dollar amount on a closed basis. The remaining amortization period at July 1, 2009, was 6 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 10 - Retirement plan - continued:

Trend information

<u>Plan year ended June 30,</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
2012	\$ 171,269	100.0%	-
2011	169,651	100.0%	-
2010	165,437	100.0%	-

Funded status and funding progress

The schedule of funding progress presents multi-year trend information showing whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The disclosure in the prior year audited financial statements incorrectly presented the July 1, 2007 and July 1, 2009 actuarial accrued liability and unfunded actuarial accrued liability calculated using the entry age normal cost method. The July 1, 2007 and July 1, 2009 amounts included in the schedule below have been revised to reflect the amounts calculated using the frozen entry age actuarial cost method.

The following is a schedule of funding progress for the District:

<u>Actuarial valuation date</u>	<u>Actuarial value of plan assets</u>	<u>Actuarial liability (AAL) entry age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2011	\$ 4,322,000	\$ 4,333,000	\$ 11,000	99.73%	\$1,709,000	0.69%
July 1, 2009	\$ 3,519,000	\$ 3,536,000	\$ 17,000	99.53%	\$1,615,000	1.03%
July 1, 2007	\$ 3,288,000	\$ 3,308,000	\$ 20,000	99.40%	\$1,407,000	1.42%

Note 11 - Payment to the City of Oak Ridge, Tennessee, for maintenance of rights-of-way:

The annual payment to the City of Oak Ridge, Tennessee, for maintenance of rights-of-way is determined at the discretion of the Board of Commissioners. The expense of maintenance of the City of Oak Ridge's rights-of-way was \$60,000 for the years ended September 30, 2012 and 2011.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 12 - Deferred compensation plan:

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. The assets of the plan are held in a trust for the exclusive benefit of the participants and their beneficiaries. Beginning October 1, 2008, the District began making matching contributions up to 3% of employees' compensation. For the years ended September 30, 2012 and 2011, the District matched employee deferrals of \$33,542 and \$33,251, respectively.

Note 13 - Postemployment benefits other than pensions:

During the year ended September 30, 2009, the District implemented the provisions of GASB Statement No. 45 (Statement No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These provisions were applied prospectively with respect to the District's postemployment healthcare plan. Statement No. 45 requires the accrual of other postemployment benefit obligations over the working careers of plan members rather than as claims are incurred.

Plan description

The District administers a single-employer defined benefit postemployment healthcare plan. The plan provides employees who are age 55 and are also eligible for retirement benefits under the District's TCRS retirement plan with the option to retire and continue health insurance coverage, with the District assuming 50% of the individual premium and the retiree assuming any additional premiums under the plan. Coverage will terminate once the retiree has reached Medicare eligibility. Benefit provisions are established by the Board of Commissioners of the District. The plan does not issue a publicly available financial report. There are no retirees under the plan at September 30, 2012 and 2011.

Funding policy

The District currently will pay for postemployment healthcare benefits on a pay-as-you-go basis. During 2012 and 2011, there were no postemployment medical benefits paid.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 13 - Post employment benefits other than pensions:- continued:

Annual OPEB cost and net OPEB obligation

The District's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by Statement No. 45 for employees in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities or funding excess over the average remaining working lives of the employees.

The following table shows the components of the District's annual OPEB cost for 2012 and 2011, the amount contributed to the plan, and changes in the District's net OPEB obligation:

	2012	2011
Annual required contribution	\$ 68,096	\$ 37,845
Interest on net OPEB obligation	4,458	3,088
Adjustment to annual required contribution	(6,825)	(6,693)
Annual OPEB cost	65,729	34,240
Contributions made	-	-
Increase in net OPEB obligation	65,729	34,240
Net OPEB obligation, beginning of the year	111,444	77,204
Net OPEB obligation, end of the year	\$ 177,173	\$ 111,444

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011, and 2010 is as follows:

Year ended September 30,	Annual OPEB cost (APC)	Actual contribution	Percent of APC contributed	Net pension asset obligation
2012	\$ 65,729	\$ -	0.0 %	\$ 177,173
2011	34,240	-	0.0 %	111,444
2010	39,359	-	0.0 %	77,204

Funded status and funding progress

As of September 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$470,786, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,636,249, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.8%.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 13 - Post employment benefits other than pensions:- continued:

Funded status and funding progress - continued

The projection of future benefits payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and as new estimates are made about the future. The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

OPEB liabilities were computed using a simplified version of the entry age actuarial cost method. Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 61. Non-group-specific age-based turnover data from Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid. The expected rate of increase in healthcare costs was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 10.0% initially, reduced to an ultimate rate of 6.5% after six years, was used. The health care costs at September 30, 2012, were used as the basis for calculation of the present value of total benefits to be paid. Based on the historical and expected returns of the District's investments, a discount rate of 4.0% was used. The expected long-term payroll growth rate was assumed to be 4.0%.

The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2012, is 16 years.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 13 - Post employment benefits other than pensions:- continued:

Schedule of funding progress for the OPEB plan:

Actuarial valuation date	Actuarial value of assets (A)	Actuarial liability (AAL) entry age (B)	Unfunded AAL (UAAL) (B-A)	Funded ratio (A/B)	Covered payroll (C)	UAAL as a percentage of covered payroll ((B-A)/C)
September 30, 2012	\$ -	\$ 470,786	\$ 470,786	0.0 %	\$,636,249	28.8 %
September 30, 2008	\$ -	\$ 232,829	\$ 232,829	0.0 %	\$,659,603	14.0 %

Note 14 - Commitments:

The District enters into forward contracts to purchase natural gas and propane at specified times in the future at guaranteed prices. Obligations to purchase the commodities are not recognized in the District's financial statements until the commodities are deliverable. The District enters into these contracts in the normal course of operations to help plan its natural gas and propane costs for the year and to protect itself against an increase in the market price of the commodities. The District has a history of taking delivery of the natural gas and propane under these contracts. In addition, the volumes of natural gas and propane specified in these contracts are consistent with the volumes expected to be sold to the District's customers for the same time period. It is possible that the market price before or at the specified time to purchase these commodities may be lower than the price at which the District is committed to buy. The District could sell the forward contracts at a loss, or if it were to continue to hold the contracts, the District may make termination payments to the counterparties to cancel its obligations under the contracts and then buy the commodities on the open market.

The District is also exposed to the failure of the counterparties to fulfill the contracts. The terms of the contracts include provisions for recovering the costs in excess of the guaranteed prices from the counterparties should the District have to procure the commodities on the open market. In any event, all costs incurred by the District in procuring natural gas are included in the District's purchased gas adjustment mechanism in its rate schedules for its natural gas customers.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 14 - Commitments - continued:

The District is obligated under pipeline contracts for transportation and storage through October 31, 2018. Following is a schedule of firm commitments under these contracts for the next five years and thereafter:

<u>Year ending September 30.</u>	<u>Transportation</u>	<u>Storage</u>	<u>Total</u>
2013	\$ 2,263,970	\$ 312,247	\$ 2,576,217
2014	2,263,970	242,247	2,506,217
2015	2,263,970	172,247	2,436,217
2016	185,781	96,866	282,647
2017	-	90,015	90,015
Thereafter	-	45,008	45,008
	<u>\$ 6,977,691</u>	<u>\$ 958,630</u>	<u>\$ 7,936,321</u>

In July 2006, the District entered into a natural gas supply agreement with TEAC to purchase a portion of its natural gas requirements from August 1, 2006 through July 31, 2026 at a price based on a market index. During the year ended September 30, 2012, the District incurred costs of \$5,525,558 (which is net of \$181,632 in refunds) to TEAC for the purchase of its natural gas. During the year ended September 30, 2011, the District incurred costs of \$7,201,177 (which is net of \$174,988 in refunds) to TEAC for the purchase of its natural gas. Amounts due to TEAC for the purchase of natural gas included in accounts payable is \$298,916 at September 30, 2012. Amounts due to TEAC for the purchase of natural gas included in accounts payable is \$404,255 at September 30, 2011.

Gas purchase commitments in dekatherms based on a market index under TEAC contracts are 847,000 in 2013, 2014, and 2015; 885,700 in 2016; 898,600 in 2017; and 8,513,833 thereafter.

OAK RIDGE UTILITY DISTRICT

Notes to Financial Statements - Continued

September 30, 2012 and 2011

Note 15 - Contingencies:

In June 2011, the District purchased the East Roane Industrial Park natural gas distribution system (System) including all equipment, facilities and real estate utilized for the operation of the System from Lenoir City Utility Board of Loudon County, Tennessee (LCUB). Based on the terms of agreement between the District and LCUB, the District will assume an obligation to Roane County, Tennessee (County) initially incurred by LCUB in the amount of \$345,000 without an implied interest rate. The obligation of \$345,000 is payable out of future revenues as determined by the initial agreement between LCUB and County until the entire obligation is fully paid. Based on the history of the System revenue stream in the prior periods, the District is not able to reasonably estimate future payments towards paying down the obligation. The District's obligation to the County as of September 30, 2012, calculated based on generated revenues as determined by the agreement, totaled \$4,413.

Note 16 - Subsequent events:

In January 2013, the District paid the outstanding balance of Gas System Revenue Refunding Bonds, Series 2002, totaling \$1,200,000.

SUPPLEMENTAL INFORMATION

OAK RIDGE UTILITY DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2012

<u>Grantor</u>	<u>CFDA No.</u>	<u>Pass Through Entity</u>	<u>State Contract No.</u>	<u>Federal/State</u>	<u>Beginning Balance</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Balance</u>
U.S. Department of Transportation	20.710	N/A	N/A	Federal	\$ -	\$ 50,000	\$ 50,000	\$ -
Total Federal Awards					<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liability is incurred.

See independent auditors' report on supplemental information.

OAK RIDGE UTILITY DISTRICT

Schedule of Principal and Interest Requirements on Long-Term Debt

September 30, 2012

Gas System Revenue Refunding Bonds, Series 2002

<u>Year ended September 30,</u>	<u>Principal requirement</u>	<u>Interest requirement</u>	<u>Total requirement</u>
2013	\$ 285,000	\$ 48,350	\$ 333,350
2014	295,000	37,378	332,378
2015	305,000	25,578	330,578
2016	<u>315,000</u>	<u>13,072</u>	<u>328,072</u>
	<u>\$ 1,200,000</u>	<u>\$ 124,378</u>	<u>\$ 1,324,378</u>

Gas System Revenue Refunding Bonds, Series 2005

<u>Year ended September 30,</u>	<u>Principal requirement</u>	<u>Interest requirement</u>	<u>Interest rate swap, net</u>	<u>Total requirement</u>
2013	\$ 205,000	\$ 31,959	\$ 98,025	\$ 334,984
2014	215,000	29,930	91,802	336,732
2015	225,000	27,804	85,281	338,085
2016	235,000	25,582	78,465	339,047
2017	240,000	23,287	71,426	334,713
2018	250,000	20,920	64,165	335,085
2019	260,000	18,456	56,607	335,063
2020	270,000	15,895	48,753	334,648
2021	280,000	13,238	40,603	333,841
2022	290,000	10,484	32,156	332,640
2023	300,000	7,634	23,413	331,047
2024	315,000	4,662	14,300	333,962
2025	<u>325,000</u>	<u>1,570</u>	<u>4,816</u>	<u>331,386</u>
	<u>\$ 3,410,000</u>	<u>\$ 231,421</u>	<u>\$ 709,812</u>	<u>\$ 4,351,233</u>

See independent auditors' report on supplemental information.

OAK RIDGE UTILITY DISTRICT

Schedule of Insurance (Unaudited)

<u>Insurance company</u>	<u>Policy number</u>	<u>Coverage</u>	<u>Amount of coverage</u>	<u>Policy expiration</u>
New Hampshire Insurance Company	01-UD-015845792-4/000	Excess/umbrella liability Each occurrence General aggregate Operations aggregate limit	 7,000,000 7,000,000 7,000,000	12/31/13
Granite State Insurance Company	02-LX-019658637-4/000	Commercial general liability Aggregate limit Operations aggregate limit Each occurrence Personal & advertising injury	 2,000,000 2,000,000 1,000,000 1,000,000	12/31/13
Granite State Fire Insurance Company	02-LX-019658637-4/000	Commercial property Property Equipment breakdown Earthquake Accounts receivable Valuable papers	 6,458,250 6,458,250 4,500,000 100,000 100,000	12/31/13
Granite State Insurance Company	02-LX-019658637-4/000	Crime & fidelity Employee theft Forgery or alteration	 150,000 150,000	12/31/13
Granite State Insurance Company	02-LX-019658637-4/000	Employee benefits liability Aggregate limit Each employee	 1,000,000 1,000,000	12/31/13
Granite State Insurance Company	02-LX-019658637-4/000	Commercial inland marine EDP Contractor's equipment	 823,332 880,398	12/31/13
Great American Insurance Company of NY	IMP 6-20-38-71-04	Commercial Inland Marine Pipeline	 1,500,000	12/31/13
New Hampshire Insurance Co.	01-CA-015847968-4/000	Automobile liability Hired car	 1,000,000 50,000	12/31/13
Darwin Select Insurance Company	0202-0179	Public officials liability Each public officials claim Each employment practices claim Annual aggregate	 5,000,000 5,000,000 5,000,000	12/31/13
Zenth National Insurance Company	C46331369	Workers' compensation Each accident Policy limit Each employee	 1,000,000 1,000,000 1,000,000	7/1/13
Travelers Insurance Company	105869335	Cyber liability Network & information security Communications & media Regulatory defense expenses	 2,000,000 500,000 1,000,000	12/31/13

See independent auditors' report on supplemental information.

OAK RIDGE UTILITY DISTRICT

Schedules of Natural Gas Rates and Number of Customers (Unaudited)

September 30, 2012

	<u>Customer charge</u>	<u>PGA adjusted base tariff (perccf)</u>
Residential	\$ 3.50	
Commodity - urban		\$ 0.9811
Commodity - non-urban		1.0211
Commodity - Kingston		1.2611
Small general	7.50	
Commodity - urban		0.9172
Commodity - non-urban		0.9572
Commodity - Kingston		1.1972
Large general/firm	None	
Urban		0.6020
Kingston		0.6020
Demand		0.9770
Large general/interruptible	75.00	
First 10,000 ccf		0.6480
Over 10,000 ccf		0.6181
Non-demand competitive	None	
First 10,000 ccf		0.6709
Next 30,000 ccf		0.5943
Next 30,000 ccf		0.5093
Over 70,000 ccf		0.4893
Primary/interruptible	None	0.3849
Special customer class	75.00	
First 10,000 ccf		0.7093
Over 10,000 ccf		0.6794

All rates are subject to a Purchased Gas Adjustment mechanism.

Number of customers

The number of customers at September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Residential	11,498	11,453
Small general	1,155	1,138
Large general	18	23
Interruptible	13	13
Primary	<u>1</u>	<u>1</u>
	<u>12,685</u>	<u>12,628</u>

See independent auditors' report on supplemental information.

OAK RIDGE UTILITY DISTRICT

Schedules of Total Throughput (MCF) and Natural Gas Revenues by Customer Class (Unaudited)

For the Years Ended September 30, 2012 and 2011

Total throughput (mcf)

The total throughput (mcf) by customer class for the years ended September 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Residential	478,965	606,818
Small general	253,724	301,479
Large general/firm	84,047	99,419
Large general/interruptible	198,379	206,233
Primary	<u>59,454</u>	<u>49,012</u>
	<u><u>1,074,569</u></u>	<u><u>1,262,961</u></u>

Natural gas revenues

Natural gas revenues by customer class for the years ended September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Residential	\$ 5,622,231	\$ 6,357,282
Small general	2,757,431	2,986,812
Large general	586,191	727,759
Interruptible	1,444,937	1,608,031
Primary	<u>249,633</u>	<u>272,808</u>
	10,660,423	11,952,692
Demand and monthly base charge	<u>823,742</u>	<u>780,120</u>
	<u><u>\$ 11,484,165</u></u>	<u><u>\$ 12,732,812</u></u>

See independent auditors' report on supplemental information.

OAK RIDGE UTILITY DISTRICT

Schedules of System Demand and Largest Gas Customers (Unaudited)

For the Years Ended September 30, 2012 and 2011

System demand

The peak day demand and average per day demand for natural gas for the years ended September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Peak day demand (mcf)	10,767	12,398
Average day demand (mcf)	2,930	3,565

Largest gas customers

The ten largest gas customers of the District's gas system, including the total consumption and gross revenues for each customer and the percentage of gross revenues to total operating revenues of the gas system for the fiscal year ended September 30, 2012, are as follows:

<u>Customer</u>	<u>Consumption (mcf)</u>	<u>Gross revenues</u>	<u>Percentage of total operating revenue</u>
Coors Tek	71,894	\$ 552,246	4.5 %
Rogers Group	58,098	247,923	2.0 %
Methodist Medical Center	51,690	365,994	3.0 %
Coors	21,991	171,081	1.4 %
Duratek	19,636	152,140	1.2 %
DSSI	15,338	140,548	1.2 %
USEC	14,118	104,284	0.9 %
BWXT	6,962	72,704	0.6 %
Roane State	7,414	67,523	0.6 %
Materials & Energy	4,890	68,238	0.6 %
	<u>272,031</u>	<u>\$ 1,942,681</u>	<u>16.0 %</u>

See independent auditors' report on supplemental information.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Commissioners
Oak Ridge Utility District

We have audited the financial statements of Oak Ridge Utility District (the District) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated March 27, 2013.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the entity, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

March 27, 2013

Fraser: Oster, LLC